LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6981 **NOTE PREPARED:** Jan 26, 2006
BILL NUMBER: HB 1192 **BILL AMENDED:** Jan 25, 2006

SUBJECT: Employee Certification Credit.

FIRST AUTHOR: Rep. Stutzman **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: (Amended) The bill provides that when an employee receives certification of new knowledge or skills or that results in the payment of higher wages to the employee, the employer taxpayer is entitled to a tax credit against the employer's state tax liability for a taxable year if the employer pays certain qualified wages to the employee in the taxable year.

Effective Date: (Amended) January 1, 2007.

Explanation of State Expenditures: (Revised) The Department of State Revenue (DOR) will incur additional administrative expenses related to changing tax forms, instructions, and computer programs to accommodate the new tax credit. The DOR will also have to make determinations of whether additional wages paid by an employer to an employee qualify for the credit. The bill also requires the Department of Workforce Development (DWD) to review these determinations. The current level of resources in both agencies should be sufficient to implement these tasks.

Explanation of State Revenues: (Revised) This bill establishes the nonrefundable Employee Certification Credit which could potentially reduce state revenue from the Adjusted Gross Income (AGI) Tax, the Sales and Use Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. The tax credit may be claimed by an employer for increased wages the employer pays to an employee after the employee receives an educational degree or certificate. The amount of credits that could potentially be claimed on an annual basis by employers is indeterminable, as the number of certification providers and the number of employees who might achieve certifications or degrees that would qualify an employer for credits is unknown. However, the annual credit total could be substantial based on the breadth of bill in specifying the wages for which employers could potentially claim the credit. The tax credit is effective January 1, 2007, and could potentially begin affecting revenue in FY 2008. Provisions pertinent to calculating creditable wages are outlined below.

(1) The degree or certificate received by an employee must: (1) be recognized by the DWD or an appropriate industry organization as evidence of an employee's acquisition of new knowledge or skills; and (2) result in the payment of higher wages to the employee.

(2) The bill provides a tax credit equal to 50% of the "qualified wages" paid by an employer during a taxable year. The bill defines "qualified wages" as the difference between the employee's wage after receiving the certification or degree and the employee's wage before receiving the certification or degree. The following calculation is an example of the credit calculation for a person receiving an associates degree after attending a post-secondary program in 2006-2008:

Employee's pre-degree wage in 2006:	$25,000
Employee's post-degree wage in 2008:	$30,000
Employee's qualified wages:	$5,000
Employer's tax credit in 2008:	$2,500

(3) The bill would allow an employer to claim the credit each taxable year the employee is employed after receiving the certificate or degree. It is also not clear that the qualified wage amount under the bill would be a fixed amount after the initial credit year, or would increase each year thereafter with year-to-year growth in wages. Since 1997, average annual pay in Indiana has grown at an annual average rate of about 3.2%.

The tax credit is nonrefundable, but the bill allows unused tax credits to be carried over to subsequent tax years. The credit may not e carried back. Since the credit is effective beginning in tax year 2007, the fiscal impact likely would not commence before FY 2008.

Revenue from the corporate AGI tax, the Financial Institutions Tax, and the Insurance Premiums Tax is deposited in the state General Fund. Eighty-six percent of the revenue from the individual AGI Tax is deposited in the state General Fund, and 14% is deposited in the Property Tax Replacement Fund. Sales Tax revenue is deposited in the: Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Department of Workforce Development.

Local Agencies Affected:

Information Sources: